

Message Text

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ACTION XMB-04

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 OPIC-03 SP-02
OMB-01 NSC-05 SS-15 STR-04 CEA-01 /075 W
-----091140Z 084740 /17

R 090640Z MAR 77
FM AMEMBASSY BEIRUT
TO SECSTATE WASHDC 3257

C O N F I D E N T I A L BEIRUT 0988

FROM THE AMBASSADOR

DEPT PASS EXIM BANK

E.O. 11652: GDS
TAGS: EAID, ETRD, LE
SUBJECT: EXIM BANK POLICIES IN LEBANON

1. WE UNDERSTAND EXIM IS CONCERNED ABOUT RESUMING
LENDING OPERATIONS IN LEBANON BECAUSE OF UNCERTAINTIES
REGARDING POLITICAL FUTURE AND SECURITY SITUATION, AS WELL AS
SUCH PROBLEMS AS ARREARS AND WAR DAMAGE CLAIMS. FOLLOWING IS
ATTEMPT TO GIVE BANK A LITTLE MORE TO WORK ON IN MAKING
DECISION, WHICH WE HOPE WILL BE POSITIVE.

2. AS WE HAVE ALREADY REPORTED (BEIRUT 0885), LEBANESE
THEMSELVES UNCERTAIN ABOUT IMMEDIATE FUTURE. THEY APPREHENSIVE
IN PARTICULAR THAT CURRENT FIGHTING IN SOUTH MAY SPARK
TROUBLES ELSEWHERE. THERE IS, NEVERTHELESS, PRETTY GOOD
SECURITY IN BEIRUT AND THE REST OF THE COUNTRY (EXCEPT THE
SOUTH) AND WILL BE AS LONG AS SYRIANS REMAIN HERE. THERE NO
IMMEDIATE PROSPECTS OF THEIR DEPARTURE, AND WE EXPECT THEM TO
STAY UNTIL A UNIFIED LEBANESE ARMY FORCE IS
RECONSTITUTED -- WHICH WILL PROBABLY TAKE AT LEAST
A YEAR. IN MEANTIME, LIFE IS RETURNING TO NORMAL,
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BUSINESSES ARE REOPENING AND COMMERCIAL ACTIVITY HAS
RESUMED, ALTHOUGH ADMITTEDLY ON RESTRICTED SCALE.

3. LEBANON HAS BEEN TRADITIONAL CITADEL OF PRIVATE
ENTERPRISE. GOVERNMENT, USUALLY PARALYZED BY
CONFESSIONALISM, HAS RELIED ON PRIVATE INITIATIVE TO
CREATE JOBS AND SERVICES. GOVERNMENT ITSELF HAS

NEVER DONE A GREAT DEAL IN ECONOMIC FIELD AND AS A RESULT IS NOT ORGANIZED TO UNDERTAKE BOLD NEW PROGRAMS. ITS CURRENT EFFORTS DIRECTED AT 1) IDENTIFYING A FINANCING SPECIFIC PRIORITY PROJECTS, FOR EXAMPLE, REPAIR OF BEIRUT PORT AND REESTABLISHMENT OF THE INTERNAL SECURITY FORCES, AND 2) FINDING CASH WITH WHICH TO REFLOAT PRIVATE SECTOR. CASH WILL BE FORTHCOMING FROM PRIVATE SOURCES ONCE LOCAL AND ARAB INVESTORS HAVE CONFIDENCE, AND ONCE PROCESS STARTED, WE CONFIDENT IT WILL SNOWBALL. THERE IS STILL MONEY TO BE MADE IN LEBANON.

4. MISSING INGREDIENT AT THIS POINT IS CONFIDENCE. MERCHANTS AND BANKS ARE TAKING WAIT-AND-SEE APPROACH -- WAITING FOR SOMEONE ELSE TO PUT UP SOME CASH AND SEEING HOW LONG SECURITY HOLDS. SECURITY IS LINKED TO POLITICAL DIVERGENCIES, WHICH IN TURN REFLECT LACK OF CONFIDENCE IN OLD LEBANESE FORMULA FOR SHARING POWER BETWEEN CHRISTIANS AND MUSLIMS. PUTTING PUZZLE TOGETHER IS GOING TO TAKE SKILL AND PATIENCE, AND A SHOW OF CONFIDENCE FROM OUTSIDE. LEBANESE HAVE ALWAYS BEEN VERY SENSITIVE TO FOREIGN BREEZES.

5. WE HAVE DISCUSSED THIS QUESTION AT SOME LENGTH WITH MAURICE BART AND IBRD TEAM WHO HERE LAST WEEK (SEPTEL). BART SAID HE WAS GOING TO URGE EXIM, COFACE, HERMES AND OTHER SUCH BANKS NOT TO FREEZE THEIR ATTITUDES TOWARDS LEBANON BUT TO START EXTENDING CREDITS. BELIEVE THAT FOR HIM, AS FOR ALL
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OF US, IMPONDERABLE IS POLITICAL-SECURITY FACTOR, BUT THAT HE AGREES WE ARE GOING TO HAVE TO TAKE SOME THINGS ON FAITH. IN ADDITION, HE POINTS OUT THAT LEBANON HAS LARGE GOLD/FOREIGN CURRENCY HOLDINGS THAT WILL HELP CARRY IT THROUGH PRESENT DIFFICULT PERIOD.

6. TOOLS AVAILABLE TO US FOR HELPING LEBANON AT THIS CRITICAL JUNCTURE ARE NOT UNLIMITED. EXIM IS ONE. WE DO NOT KNOW PAST VOLUME OF LOANS TO LEBANON, BUT GATHER LEBANESE RECORD ON REPAYMENT BEFORE WAR ERUPTED WAS GOOD. WE BELIEVE THERE ARE BANKABLE PROPOSITIONS IN LEBANON TODAY, AND THAT GOL IS PREPARED TO GUARANTEE PAYMENT -- SOMETHING THAT SHOULD BE QUITE FEASIBLE AND RESPECTABLE GIVEN ITS RESERVE SITUATION.

7. MINISTER OF INDUSTRY HAS PROPOSED INFORMALLY THAT EXIM MAKE CREDIT AVAILABLE TO DEVELOPMENT BANK FOR FINANCING IMPORTATION OF FACTORY MACHINERY. NO AMOUNTS

MENTIONED, AND I FORBEAR SUGGESTING ONE. WHAT IS NEEDED IS
SUBSTANTIAL NUT WITH WHICH TO START PROCESS.
AT TIME WHEN OUR EXPORTS SAGGING, IMAGINATIVE EFFORT
TO REVIVE A TRADITIONAL, FREE ENTERPRISE MARKET LIKE
THIS ONE WOULD SEEM APPROPRIATE. WE THEREFORE THINK THIS
WOULD BE OPPORTUNE MOMENT FOR EXIM TO SEND SMALL TEAM HERE
TO LOOK OVER SITUATION ON GROUND. WE PREPARED GIVE
ADMINISTRATIVE SUPPORT TO FULL EXTENT OUR MEANS.
PARKER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES
Control Number: n/a
Copy: SINGLE
Sent Date: 09-Mar-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BEIRUT00988
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770080-1213
Format: TEL
From: BEIRUT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770380/aaaacrur.tel
Line Count: 125
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 2c785ebb-c288-dd11-92da-001cc4696bcc
Office: ACTION XMB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 22-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3169811
Secure: OPEN
Status: NATIVE
Subject: EXIM BANK POLICIES IN LEBANON
TAGS: EAID, ETRD, LE, XMB
To: STATE
Type: TE
vdkgvwkey: odbcr://SAS/SAS.dbo.SAS_Docs/2c785ebb-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009